GW Risk:	Lack of True Independence due to regulatory dominance of "focused economic interests" – or the capture of decision making by large utilities and generators.

Proposed Risk:

In the regulatory process, those with focused economic interests will dominate against those with a diffuse but larger interest. It took the railroads about two years after the formation of the ICC to learn this lesson and to "capture" and dominate that regulatory commission for nearly 100 years. Or, as Woody Allen says, "85% of success is simply showing up" and the focused economic interests will show up. As a consequence, loads with a very diffuse interest (but who pay all the fixed costs)—that is, us, rate payer groups and the like—will always face an uphill battle against the strong parties trying to influence Grid West actions.

Rebuttal:

George Stigler's (and Sam Peltzman's subsequent) theory basically says that regulation is most likely to be designed to benefit relatively small groups with strong preferences on regulation, at the cost of relatively large groups with weak preferences on regulation. It is suggested that producers will usually be in the latter category with consumers in the former. This because consumers experience their benefits in a diffuse manner (i.e., <$100/year/person) - the benefits of spending money to exert political influence on a per person basis is not enough to warrant attention. Producers experience their benefits in a more concentrated manner and directly see the full benefits of their investment in lobbying. In other words, there are more positive externalities associated with the individual consumer's investment in lobbying than there are benefits to that particular consumer - so they don't invest. It creates a free rider problem that producers don't see.

However, in the Pacific Northwest, given the strong presence of public power, I think we avoid that result to a degree. I would theorize that public power reduces that free rider problem by concentrating and making public the benefits of investing in regulatory influence. In many areas, the utility *is* the consumer. Where IOU's serve, PUC's look out for the public interest.

Indeed, one could say that the presence of public power has demonstrated this effect by the way that Indego/RTOWest/ Grid West have evolved. There seems to be a balance in representation or influence of public power vs. generator representation/influence in the RRG or in the other developmental fora. This has been demonstrated by the repeated failure of Northwest restructuring proposals due to the concerns of public power – proposals that were supported by the larger for-profit IOUs and IPPs.

That said, it is clear that consumers on the East Coast (especially industrial consumers) have complained about the coopting of ISO/RTO policy development by producers. In order to understand how this should influence our decisions, one would need to 1) Examine the validity of this claim, 2) Determine whether or not political influences are likely to be played the same here in the NW (i.e., think about the influence of public power here vs. the NE) and 3) Determine whether or not the bylaws are set up in a way that augments or blunts that effect.

It is also interesting to note that Stigler's theory says that the regulatory price, even with the "capture" phenomena, would be lower than the monopoly price if the subject of regulation is a natural monopoly. Thus, he implies that regulation gives consumers a better deal even in the face of "capture" than they would otherwise have. But that assumes that the regulator is setting a price - whereas an RTO (I don't think Grid West is an RTO) sets the rules for pricing, but not an actual price. How would Stigler's theory be applied to this playing field?

Surrebuttal:

It is true that PUCs and public power normally act on behalf of their customers. However, their actions are once removed from responsibility for final bills. They act for their customers but they do not bear the consequences of the inability to change the direction of Grid West in their favor. They pass those consequences through into final bills.

The actions of PUCs and public power bodies is, of course, not as intensely focused as an IPP with a resource in the region. The ability of a PUC is further attenuated by their other non-electric responsibilities, whether they be for retail rate-setting, gas, water, transportation and the like. In addition, a PUC is generally a decision maker, not an advocate, so its ability to press for Grid West decisions for its rate payers would require some experience. Like PUCs, public power bodies face competing interests in their retail endeavors. And, of course, the smaller the public-power utility the smaller will be its ability to apply resources to affecting Grid West decisions.

Finally, the combined voter bloc of transmission dependent utilities, PUCs and end-use customers is less than 50% of the total MRC vote. Lest we forget, in the market place, each individual consumer has 100% of the voting rights; he or she doesn’t have to accept a vote on whether to buy at Chevron or Shell.